



FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Grants Management Division

<http://www.tdh.state.tx.us/grants/>
1100 W. 49th Street
Austin, Texas 78756-3199

June 2002
Paper Publication # 29-11525
Electronic Publication # E29-11525

Mario R. Anzaldúa, M.D.
Chair, Texas Board of Health

Eduardo J. Sanchez, M.D., M.P.H.
Commissioner of Health

**GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE
PROCEDURES MANUAL for TDH CONTRACTORS**

TABLE OF CONTENTS

1.0	INTRODUCTION	3
2.0	BASIC ACCOUNTING & FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS FOR TDH CONTRACTORS	4
2.1	General	4
2.2	Basic Accounting Records	5
2.3	Internal Controls.....	7
2.4	Allowable and Unallowable Costs	9
2.5	Required Accounting Policies and Procedures	11
2.6	Budget Categories and Required Documentation	16
2.7	Program Income.....	21
2.8	Procurement Policies and Practices.....	25
2.9	Insurance Coverage.....	26
3.0	REIMBURSEMENT PROCEDURES	27
3.1	Advance Payments	27
3.2	Reimbursement Requests.....	28
3.3	Late Reimbursement Requests.....	29
4.0	FINANCIAL REPORTING REQUIREMENTS.....	30
4.1	Quarterly Financial Status Report Form 269a (FSR)	30
4.2	Final Financial Status Reports	31
4.3	Program Income Reporting	31
4.4	Special Reporting Requirements For Title X	31
5.0	MODIFYING THE TERMS OF A CONTRACT ATTACHMENT.....	33
5.1	Contract Amendments	33
5.2	Written Approval.....	34
6.0	PROPERTY MANAGEMENT PROCEDURES	35
6.1	Equipment Management	35
6.2	Disposition of Property	36
7.0	TECHNICAL ASSISTANCE	37
8.0	FINANCIAL COMPLIANCE REVIEWS	38
8.1	Routine Financial Report Monitoring	38
8.2	Desk Financial Compliance Reviews	38
8.3	On-site Financial Compliance Reviews	39

**GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE
PROCEDURES MANUAL for TDH CONTRACTORS**

9.0	FREQUENTLY ASKED QUESTIONS	41
9.1	Program Income.....	41
9.2	Travel Advances	43
9.3	Costs and Cost Allocation Plans	43
APPENDICES	45
A1	FINANCIAL STATUS REPORT (FSR) FORMS & INSTRUCTIONS	
A2	REIMBURSEMENT REQUESTS	
A3	SAMPLE FORMS	
A4	COST ALLOCATION PLANS	
A5	NON-EXPENDABLE PERSONAL PROPERTY REPORT (GC-11)	
A6	LIST OF ITEMS REQUIRED FOR FINANCIAL COMPLIANCE REVIEW	
A7	EXAMPLE OF LABOR (SALARY) DISTRIBUTION METHOD BASED ON TIME SHEETS	
A8	RESERVED FOR FUTURE USE	
A9	RESERVED FOR FUTURE USE	
A10	MATCHING CONTRACT ATTACHMENTS – SPECIAL REQUIREMENTS	
A11	MATCHING CONTRACTS – FORM B 13X & INSTRUCTIONS – SUPPORTING SCHEDULE FOR REIMBURSEMENT	

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Section 1.0

INTRODUCTION

This manual has been prepared for the purpose of providing a useful reference guide to financial administration requirements for Texas Department of Health (TDH) contractors, including applicable laws, standards, reporting requirements and management procedures. In order to promote the efficient use of public funds, the Office of the Governor, State of Texas, has promulgated the Uniform Grant Management Standards (UGMS). By policy, TDH has implemented UGMS as the basis for all terms and conditions of its contracts, except for those exclusions specifically provided by law.

Most of the requirements of the Uniform Grant Management Standards (UGMS), Federal/State Regulations and the TDH policies and procedures as summarized in this manual can be met by a financial management and accounting system which provides for (1) adequate internal controls, (2) detailed records that support receipts and expenditures, (3) procedures and oversight which require timely reporting of financial activity, and (4) a complete and well-documented audit trail for all financial transactions.

The UGMS have been revised effective February 26, 1998, and will be applicable to all contracts with TDH which have an effective date on or after March 1, 1998. Contracts effective prior to that date will be governed by the previous Uniform Grant and Contract Management Standards (UGCMS).

The contents of this manual are intended to assist you in meeting the requirements of UGMS. This revision of TDH's Financial Administrative Procedures Manual should be substituted for any previous editions of the manual that have been distributed to contract agencies. A copy of the manual should be available to all staff at your agency who have responsibility in the area of financial management.

Please feel free to contact the TDH's Grants Management Division (GMD) at (512) 458-2591 or 458-7520, or fax (512) 458-7736 for additional assistance as required. Business hours are 8:00 a.m. to 5:00 p.m., Monday through Friday, excluding holidays.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Section 2.0 BASIC ACCOUNTING & FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS FOR TDH CONTRACTORS

2.1 GENERAL

There are basic fiscal and administrative compliance requirements that apply to all contracts funded by TDH. The governing board of the contractor receiving a TDH contract will bear full responsibility for the integrity of the fiscal management of their organization. Such management will include accountability for all funds and materials received from TDH; compliance with TDH rules, policies, and procedures; compliance with applicable federal and state laws and regulations; and correction of fiscal or administrative deficiencies identified through self-evaluation and TDH's various review processes.

The contractor will maintain a financial management system that provides sufficient fiscal control and implement accounting procedures sufficient to ensure: (a) preparation of reports required by this document and any statute or regulation referenced and/or included in the contract and (b) adequate identification of the source and application of funds to establish that such funds have not been used in violation of any applicable statute or regulation.

The UGMS are the primary source for policies contained herein. The following publications are available for additional guidance regarding allowable costs and administrative requirements. Copies of these publications are included in the contract packet as applicable.

Type of Entity	Cost Principles	Administration Requirement
State and Local Governments or Indian Tribal Governments	OMB Circular A-87	Uniform Grants Management Standards (UGMS)
Not-for-Profit Organizations	OMB Circular A-122	UGMS
Educational Institutions	OMB Circular A-21	OMB Circular A-110 (45 CFR Part 74)
Commercial Organizations	48 CFR Part 31	OMB Circular A-110 (45 CFR Part 74)

The following sections define the minimum acceptable standards of financial management necessary for a contractor to comply with TDH requirements while ensuring that the organization has a sound financial

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

management system with adequate internal controls. A detailed description of a basic financial management system, including budgeting, accounting, record keeping, payroll and time keeping, as well as the other support systems required to carry out the contract satisfactorily, is provided herein. The system described is not intended to replace the system and controls already in place if they meet the minimum acceptable standards as described in this document.

2.2 BASIC ACCOUNTING RECORDS

The accounting system must conform to Generally Accepted Accounting Principles (GAAP) applicable to recipients of state and federal funds and should include: books of original entry, permanent records, and periodic reports.

Books of Original Entry

Books of original entry include the following journals and ledgers:

- Cash disbursements and cash receipts journals
- General Journal
- Salary distribution journal or salary distribution work papers for each pay period to support journal entries recording salary distribution
- General Ledger (with control accounts and sub-ledgers as applicable)
- Payroll Journal

Permanent Records

Permanent records include the following documents:

- Individual employee earnings records
- Bank statements and canceled checks
- Original vendor invoices and supporting documentation such as price quotes, authorization, purchase orders, receiving reports, etc.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

- Payroll authorizations, W-4's (employee federal income tax withholding information form), job descriptions, confidentiality statements, applications, transcripts, I-9's (proof of citizenship) and other related documents
- Individual employee time sheets
- Journal entries - request for journal entry and all documentation and calculations necessary for understanding and independent evaluation

Periodic Reports

Periodic reports include the following:

- Quarterly (preferably monthly) working trial balance of the contractor's general ledger
- Quarterly (preferably monthly) financial statements (income statement, balance sheet and cash flow statement)
- Monthly trial balance of expenses relating to each TDH contract attachment (for preparation of the monthly reimbursement voucher to TDH)
- Quarterly working trial balance of expenses relating to each TDH contract attachment (for the preparation of Financial Status Reports)
- Copies of monthly contract reimbursement vouchers supported by copies of applicable general ledger pages and reconciliation work papers if appropriate
- Financial Status Reports (FSRs) Form 269a and/or Form 270 for each contract attachment (as required by the terms of the individual attachments) supported by work papers which reconcile the general ledger working trial balance to the FSR and to monthly reimbursement vouchers
- Monthly bank reconciliations
- State and federal payroll reports

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

2.3 INTERNAL CONTROLS

General

Sound management practices include systems, procedures and methods that will monitor and ensure a contractor's compliance and progress toward objectives. Information (reports, memos, data) generated by these practices are used as feedback for other management functions such as planning, organizing and directing so that necessary adjustments can be made.

According to the American Institute of Certified Public Accountants (AICPA) Committee on Auditing Procedure, internal control is comprised of the plan of organization and all the coordinate methods and measures adopted within an organization to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.

This definition is broader than the meaning sometimes attributed to the term. It recognizes that a system of internal control extends beyond those matters which relate directly to the functions of the accounting and financial departments. In Statement of Auditing Procedures Number 29, the AICPA committee stated that internal control in the broad sense includes controls which may be characterized as either accounting or administrative.

The following definitions of administrative and accounting controls are found in the AICPA's Statement of Auditing Standards No. 1, Section 320.27:

- Administrative control includes, but is not limited to, the plan of organization and the procedures and records that are concerned with the decision processes leading to management's authorization of transactions. Such authorization is a management function directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing accounting control of transactions.
- Accounting control comprises the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the assurance that:
 - > Transactions are executed in accordance with management's general or specific authorization.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

- > Transactions are recorded as necessary to: (1) permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (2) maintain accountability for assets.
- > Access to assets is permitted only with management's authorization.

The recorded accountability for assets is compared to existing assets at reasonable intervals and appropriate action is taken with respect to any discrepancies.

The system of internal controls should encompass five major concepts:

- Segregation of functions
- Proper authorization
- Proper recording of transactions
- Limited access to assets
- Evaluation of progress toward objectives

Each concept is described in detail below. These explanations illustrate the principles involved in developing a system of internal controls. The extent to which internal controls are established or practical is dependent upon the nature and size of the organization involved.

Segregation of Functions

The segregation of functions or duties is an important element in any system of internal control. For accounting control purposes, incompatible functions are those that place any person in a position to both perpetrate and conceal errors or irregularities in the normal course of their job. For example, anyone who records disbursements could either intentionally or unintentionally fail to record a check. If the same person also reconciles the bank account, the omission could be concealed through a false or inaccurate reconciliation.

Proper Authorization

Controls ensuring that transactions are carried out as authorized require independent verification that authorization was properly issued and that

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

transactions conform with the terms of the authorization. This may be accomplished by independent comparison of transactions with specific authorization documents. For example, requiring two signatures on a check allows more than one person to review and approve that expenditure.

Proper Recording of Transactions

Accounting controls should also ensure that transactions are: (1) recorded in the proper amounts, (2) recorded in the accounting periods to which they apply, and (3) classified in appropriate accounts. Once an accounting period has been closed, no transactions should be posted to the closed period. If the period is re-opened (i.e., to post audit adjustments, year-end/contract-end adjustments) a revised FSR must be prepared and submitted to TDH if the adjustments impact a TDH grant.

This is especially important in order to ensure the preparation of financial statements in conformity with generally accepted accounting principles. An example of this type of accounting control is the comparison, on a test basis, of canceled checks returned by the bank with the recorded disbursements to reveal any unrecorded checks.

Limited Access to Assets

Limiting access to assets to only those individuals having direct responsibility for assets can be an important control in the safeguarding of those assets. Choosing the personnel to whom asset access is authorized should be influenced by the nature and susceptibility to loss of that asset.

2.4 ALLOWABLE AND UNALLOWABLE COSTS

Allowable Costs

An allowable cost, in accordance with applicable cost principles as found in the publications referred to in Section 2.1, meets the following criteria:

- It is necessary and reasonable for proper and efficient administration of the funded program.
- It can be allocated to the funded program and is not a general expense needed to carry out the contractor's general responsibilities.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

- It is authorized or is not prohibited under applicable laws or regulations.
- It conforms to applicable limitations or exclusions.
- It is consistent with applicable policies and procedures.
- It is treated consistently through the application of generally accepted accounting principles appropriate to the circumstances.
- It is not allocated or included as a cost of any other program.
- It is net of all applicable credits.

Unallowable Costs

Unallowable costs, i.e., costs that may not be paid with TDH funds include, but are not limited to, the following:

- Advertising costs other than those specifically allowed by terms of the contract attachment or those incurred for the purpose of personnel recruitment, solicitation of bids and disposal of surplus materials
- Bad debts
- Contingency reserve funds
- Contributions and donations
- Entertainment costs including amusement/social activities and their related costs (meal, beverages, lodgings, rentals, transportation, and gratuities)
- Fines, penalties, late payment fees, bank overdraft charges
- Fund-raising
- Interest (unless specifically authorized by applicable cost principles)
- Lobbying

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

See the applicable cost principles for additional information and guidance on allowable and unallowable costs.

Direct Costs

Direct costs are specifically identified with a particular award, project, service, scope of work or other direct objective of an organization. These costs may be charged directly to the contract attachment. They may also be charged to cost objectives used to accumulate all costs pending distribution to specific contracts and other purposes.

Indirect Costs

Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. The amount of indirect costs which may be charged to a TDH contract attachment is defined in the attachment budget.

2.5 REQUIRED ACCOUNTING POLICIES AND PROCEDURES

Separate General Ledger Accounts

A separate cost center must be maintained within the general ledger for each TDH contract attachment. A cost center is defined as a unique series of general ledger accounts established for the purpose of the accumulation and categorization of expenses relating to a specific activity, i.e., a TDH contract attachment. The balances reflected in these accounts will be the basis for monthly reimbursement vouchers and the quarterly Financial Status Reports.

Salary and Wage Distribution

Non-Profits: The distribution of salaries and wages to all TDH contract attachments for nonprofit agencies must be supported by personnel activity reports (time sheets) for each employee whose compensation is charged in whole or in part directly to the contract attachment. The time sheet must (a) allow the employee to charge time to more than one activity (cost center, project, or expense pool), (b) reflect an after-the-fact determination of the actual activity of that employee for a period of time which coincides with a pay period, (c) be signed by the employee and approved by the employee's supervisor (the signatures attest to the validity of the recorded time) and (d) reflect the employee's total activity for the period. This method is referred to as the Time Sheet Method.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

The following documentation is required to substantiate distribution of salaries using this method:

- Completed time sheets for each employee whose compensation (all or part) is charged to the contract attachment
- A written job description for each employee
- A document approved by the appropriate authority which reflects the employee's name, job title, rate of pay and the effective date of the rate of pay
- Work papers or journals must reflect the following calculations for all employees whose salaries are charged (all or in part) to the contract attachment (**see Appendix A3.1 for model time sheet and A7 for example of salary distribution calculations**):

$$\begin{array}{rcl} & & \text{Total Hrs Worked on Attachment During Period} \\ \text{Total Gross Pay for Period} & \times & \frac{\text{-----}}{\text{Total of all Hours Worked}} \end{array}$$

- Payroll journals which reflect the employee(s) gross salaries, payroll deductions, net pay and payroll check number
- Canceled payroll checks

Government: State and local governmental entities may distribute salaries and wages using one of the following methods:

1. Time Sheet Method as described above; or
2. Quarterly Time Study utilizing the distribution percentages which resulted from a study using the Time Sheet Method (described above) for the first month of each calendar quarter to distribute employee compensation for the entire calendar quarter. Time studies must be updated quarterly using the Time Sheet Method for the first month of each quarter; or
3. Approved alternative methods: Government entities may use alternative methods of distributing employee compensation provided the alternative method has been pre-approved in writing by TDH. All approvals of alternative methods which were issued by TDH prior to September 1, 1998, are now invalid. Agencies wishing to use an alternative method after September 1, 1998, must submit a detailed description of their proposed method to GMD for review

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

and approval. Salaries allocated with an unapproved method may be disallowed. A salary distribution plan based on budgeted information is unacceptable.

Cost Allocation Plans

Shared Costs: When costs are being funded by two or more sources, issues arise as to how these costs should be allocated among the funding sources. Costs are allocable to a particular grant award in accordance with the relative benefit received. In order for a cost to be allocable to a grant, the grant program must have benefited in some way from that cost.

Examples of types of shared costs are:

- General administrative expenses, such as salaries and expenses of executive officers, accounting, personnel administration;
- The cost of operating and maintaining facilities (for buildings shared by more than one program or by administrative staff and program staff), such as utilities, janitorial, rent or depreciation or use allowance; and
- The costs of shared program staff and equipment.

Allocation of Costs: A cost is allocable to a grant award if it is treated consistently with other costs incurred for the same purpose in like circumstances, and if it:

- Is incurred specifically for the award;
- Benefits both the award and other work of the organization and can be distributed in reasonable proportion to the benefits received; or
- Is necessary to the overall operation of the organization, although a direct relationship to any particular grant cannot be shown.

Any cost allocable to a particular award or other cost objective may not be shifted to other grant awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award. This means that just because a program receives little funding or doesn't allow for payment of administrative costs, does not mean that the program should not still be allocated its fair share of costs.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

All costs of the grantee organization, including administrative and indirect costs, must be allocated equitably to each of the various funding sources. Costs may be properly allocated to each funding source using direct cost allocation methods, based on the grantee's "Direct Cost Allocation Plan", or by using an approved "Indirect Cost Rate Agreement."

Direct Costs: A direct cost is any cost which can be identified specifically with a particular grant award or project, or which can be directly assigned to the project or activity relatively easily with a high degree of accuracy. Costs charged as direct costs to a grant must be consistently treated as direct costs for other funding sources of the organization.

Some grantees treat all of their costs as direct costs. Typical shared costs, such as depreciation, rental costs, operation and maintenance of facilities, telephone expenses, and the like are prorated individually as direct costs to each category and to each activity. This method is acceptable, provided each cost is prorated using a base that accurately measures the benefits provided to each activity. The base(s) used must be established in accordance with reasonable criteria, be supported by current data and produce an equitable distribution of costs to each funding source.

It is not acceptable to assign a disproportionate share of costs to one program or activity simply because it may have the largest funding source.

In theory, all shared costs might be charged as direct costs but, especially for grantees with numerous funding sources and multiple shared costs categories, practical difficulties sometimes prevent grantees using this approach.

Direct Cost Allocation Plans: If a grantee chooses to use direct cost allocation methods, then they must develop and maintain on file a written "Direct Cost Allocation Plan" along with supporting documentation and the rationale for the allocation bases. The plan must be revised when there is a significant change in the allocation bases. It should use the simplest, most straight-forward ways of allocating costs fairly, to each funding source. The nature and use of each cost category will determine the appropriate methodology to use for allocation of the cost. For example, costs related to a building that is being shared by several programs could be allocated based on the square footage of building space occupied by each one of the programs. (See *Appendix A.*) (4) for suggested allocation bases for specific costs.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Signatures on Checks

All checks should be signed by two authorized individuals. The payee and the individual signing a check cannot be the same person.

Canceled Vendor Invoices

Original vendor invoices should be stamped "PAID" and reflect the check number, the account or accounts charged, the amount charged to each account, the date paid and identification of the specific allocation plan used if the charges are allocated.

Travel Vouchers

All expenses relating to travel should be reflected on one form for each trip (i.e., the cost of hotel, air fare, meals, taxi, etc). The form should also reflect the purpose of the travel and bear the signatures of the person traveling and the individual authorized to approve the expenditure.

Proper Authorization of Transactions

Controls must be implemented to ensure that all transactions are pre-approved and carried out as authorized. These controls should require written evidence that authorizations are properly issued and that transactions conform with the terms of the authorizations.

Chart of Accounts

A written description of the chart of accounts should be maintained. This document should be in sufficient detail to ensure consistency in the classification of income and expense.

Executive Oversight

Non-Profit Agency: The governing board has full responsibility for the financial management of its organization. In order to fulfill this obligation, the board should (at a minimum): (1) review detailed quarterly financial statements or (2) review and approve the annual budget and (3) approve all executive-level salaries.

TDH strongly recommends that the full board of directors or an audit committee (comprising at least three board members) review a monthly financial package consisting of (at minimum): an income statement, balance sheet, cash flow report and a report for each TDH contract

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

attachment which compares the actual categorical expenditures incurred to the approved categorical budgets for each attachment. Copies of the financial information presented to the board or audit committee and the minutes of those meetings should be retained in accordance with appropriate financial management procedures, and should be made available for review by TDH financial compliance monitors, upon request.

Governmental Organization: (Local Health Departments, etc.): The governing body (city council, county commissioner's court, board of health, or board of directors of a health district) has the full responsibility for the financial management of the performing organization. This responsibility may be delegated to an oversight committee, the county or city auditor's office, or some other responsible group not directly associated with the day-to-day operations of the performing organization. Documentation should be maintained which clearly delineates the chain of responsibility for the financial management of the performing organization. The oversight group should: (1) review detailed quarterly financial statements for the organization; (2) review and approve organization's annual budget; and (3) approve all executive-level salaries.

TDH strongly recommends that the oversight group review a monthly financial package consisting of (at minimum): an income statement, balance sheet, cash flow report and a report for each TDH contract attachment which compares the actual categorical expenditures incurred to the approved categorical budgets for each attachment. Copies of the financial information presented to the governing body or delegated oversight committee and the minutes of those meetings should be retained for review by TDH financial compliance monitors.

Written Policy and Procedures Manuals

Accounting and personnel policies and procedures manuals should be written, maintained, and made available to employees. Updates and revisions should be documented as often as necessary and inserted into the manuals. These manuals and revisions should be approved by the Board of Directors.

2.6 BUDGET CATEGORIES AND REQUIRED DOCUMENTATION

All expenses charged to a TDH cost reimbursement contract attachment must be classified in the appropriate budget category for reporting purposes. The definition of the various TDH budget categories and the

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

documentation required to support charges to each category are reflected below.

Personnel Costs

This budget category includes that portion of employee(s) gross salaries which is chargeable to the contract attachment. Salaries charged to a TDH attachment must be supported by applicable documentation as defined under Section 2.5, Required Accounting Policies and Procedures, of this manual.

Fringe Benefits

This category includes the employer's share of FICA and Medicare taxes, health insurance premiums, retirement, unemployment taxes, workman's compensation insurance, etc. Fringe benefit costs are allocated on the same basis as salaries. The supporting documentation required for fringe benefits is as follows:

- The original vendors' invoices for items other than taxes
- Copies of quarterly payroll tax reports for FICA and unemployment taxes
- Canceled checks

Procedures must be implemented to ensure that proper credits are recorded for refunds, forfeiture of retirement fund due to employee termination prior to vesting in the retirement plan, etc.

Travel

The costs of transportation, lodging, meals and related expenses incurred by the contractor's staff while traveling to perform duties required by the attachment's scope of work are classified as travel. This includes personal auto mileage for local travel by employees. Costs related to client transportation and registration fees should be classified as "Other"—not "Travel". See Exhibit B for examples of travel vouchers and mileage logs. Out-of-state travel requires prior written approval by the appropriate TDH Program. If the out-of-state travel was clearly defined in your

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

application and not deleted or changed, prior approval is assumed. Documents required to support travel expenses are:

- Signed and approved travel vouchers or mileage logs (for reimbursement of mileage incurred while using a personal vehicle for contract-related purposes) signed by the employee and the employee's supervisor. Each document should reflect the purpose or purposes of the trip(s). A separate travel voucher is required for each out-of-town trip for each individual employee. Mileage logs should be signed and approved for local and out-of-town travel and should include the destination and the purpose
- Original receipts for airline tickets, hotels and other expenses. A credit card receipt is not sufficient
- Written travel policies and board of directors' minutes reflecting approval of the travel policy. Travel policies should establish firm guidelines for maximum charges for hotel rooms, meals, etc.
- Canceled checks

Equipment

Equipment is defined by TDH as non-expendable personal property with a unit cost of more than \$1,000.00 and a useful life of more than one year, with the following exceptions: fax machines, cameras, video recorders/players, microcomputers, printers, software, and medical and laboratory equipment. Medical and laboratory equipment in this category is defined as microscopes, oscilloscopes, centrifuges, balances and incubators. Medical and laboratory equipment not included in these five categories is not considered a capital asset unless the unit value is over \$1,000.00. The exception items listed will still be inventoried if their unit cost plus any items used with or attached to the unit is \$500.00 or greater. In accordance with TDH policy, ensure that written prior approval is received for equipment as defined above. If equipment is clearly defined and included in your proposal to TDH and the contract attachment budget, preapproval is assumed. For items with component parts (i.e., computers), the aggregate cost must be considered when applying the \$500/\$1000 threshold. The following supporting documentation is required:

- Written evidence of TDH's prior approval of the purchase

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

- Copies of the contractor's request for quotations and quotations received (if applicable)
- Executive director's (or designated authorized representative's) written approval
- Written receiving report
- Original vendor invoice
- Assigned asset number and manufacturer's serial number
- Canceled check

Procedures for managing equipment, whether acquired in whole or in part with contract funds will, at a minimum, meet the requirements defined in Section 6, Property Management Procedures, of this document.

Supplies

Purchases of supplies such as medical, office, laboratory, janitorial, drugs, food supplies for food pantries, etc. are charged to this category. Supporting documentation includes:

- Evidence of prior approval by an authorized individual
- Original vendor's invoice
- Evidence of receipt
- Purpose for the expenditure
- If allocated, a written allocation plan with supporting rationale and calculations
- Canceled check

Contractual

Only costs incurred for the performance of services defined in the Attachments scope of work, rendered by a third party are to be charged to this category. Examples of the services to be included in this category are: counseling, education, nursing, lab fees, physician's fees, radiology, pharmacy, therapy, etc.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Cost reimbursement contracts must pass on all of the terms and conditions of the prime contract to the subcontractor. This means, among other things, that the subcontractor's financial management system must meet or exceed the standards as defined in this publication. The contractor is solely responsible for ensuring that the subcontractor's system meets these standards.

To ensure compliance by the subcontractor, the contractor should conduct periodic on-site financial compliance reviews of the subcontractor's books and records. The findings of these reviews should be well-documented and available for review by TDH. The contractor is responsible for the successful resolution of issues arising from these reviews and for the resolution of any issues resulting from a Single Audit Report (if the subcontractor is subject to the single audit requirements of the TDH contract).

The following supporting documentation is required:

- A fully executed written contract must contain at least the following information:
 - > name and address of all parties
 - > a detailed description of the services to be provided
 - > measurable method and rate of payment and total amount of the contract
 - > clearly defined and executable termination clause
 - > beginning and ending dates which coincide with the dates of the applicable contract attachment(s)
 - > authorization allowing access to inspect work performed, and the premises on which it is performed, in accordance with the Reports and Inspections Article contained in this contract
 - > all clauses required by state/federal statutes, executive orders, and their implementing regulations.
- TDH's prior written approval for subcontracts which exceed \$25,000 or 25% of the attachment amount, whichever is greater (see the

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

subcontracting article in the General Provisions of your contract for additional information concerning subcontracting).

- Invoice from subcontractor (on a monthly basis, at a minimum) which reflects the number of units and type(s) of service(s) performed, the date(s) of service(s) and the individual patient's identification
- Approval by a responsible employee who is in a position to attest to the invoice's accuracy
- Canceled check

Other

All other allowable costs not listed in any of the above categories are to be included in this category. The following supporting documentation is required:

- Evidence of prior approval
- Original vendor's invoice
- Evidence of receipt
- Purpose
- If allocated, a written allocation plan with supporting rationale and calculations
- Canceled check

2.7 PROGRAM INCOME

Definition and Purpose

Program income (PI) is defined as gross income directly generated by a grant supported activity or earned as a result of the grant agreement during the Attachment term. Program income may include fees for services performed or income from the sale of items fabricated under the contract agreement, proceeds from the sale of tangible personal or real property, usage or rental fees, sale of services such as laboratory tests, computer time, and patent or copyright royalties.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Most commonly under TDH contracts, program income is the income resulting from fees collected (not accrued) for health services rendered by a contractor in an effort which is wholly or partially funded by a TDH contract Attachment. Program Income includes all fees paid by the patients, third party reimbursements from Medicaid, Medicare, commercial insurance payments, etc. TDH's share of PI must be used to supplement (i.e., added to; additive method) the project costs for the specific Attachment under which it was generated or to reduce the total amount funded by TDH (deductive method).

TDH's proportionate share of program income cannot be used to supplant state or local funds. The contractor must use such funds to increase state or local funds currently available to the contractor for the grant activity. Further, PI may not be expended for indirect costs at a rate greater than approved in the contract Attachment or for equipment purchases unless specifically approved by a formal contract budget amendment.

If PI was not included in establishing the rates in a fixed Fee-for-Service contract, the contractor shall use program income to provide additional services in accordance with the schedule of fees, unless otherwise specified in the contract. TDH's share of PI must be deducted from each billing prior to requesting reimbursement. (See the General Provisions and Special Provisions of your contract Attachment for additional information.)

Identification

Uniform Grant Management Standards, Subpart C, Section 20, requires the contractor to maintain accounting records that adequately identify the source and application of funds provided for contract activities. The accounting records must be sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds were expended for allowable costs and were not used in violation of the restrictions and prohibitions of applicable statutes. The total program income generated by each grant funded activity should be recorded in the contractor's general ledger under unique revenue account(s). Likewise, all expenses allocable to the grant activity should be recorded in the contractor's general ledger under a unique cost center and set of expense accounts.

Allocation

Program income earned as a result of an activity jointly funded by TDH and other funding sources (i.e., private funds or other grants to the

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

contractor) must be allocated to each funding source. The allocation will be based on the ratio of TDH's funding to the total amount funded by all sources for the same Attachment. The PI Allocation Plan would therefore use the following formula, expressed as a percentage (assume the following numbers, as an example):

$$\frac{\$60,000 \text{ (Amount of TDH funding)}}{\$100,000 \text{ (Total funding, including that provided by TDH)}} = .6 \text{ (or 60\%)}$$

The percentage thus obtained would then be applied to the total PI collected under the Attachment to determine an amount allocable to TDH. For example, if total PI collected was \$5,000, the amount allocable to TDH would be \$3,000 (i.e., 60% of \$5,000). The percentage allocable to non-TDH sources would be obtained by subtracting the TDH percentage from one-hundred percent (in this case, 100% less 60% = 40%). (NOTE: This non-TDH percentage might also be computed by substituting the non-TDH funding amount as the numerator in the fractional formula shown above.)

A Program Income Allocation Plan (see *Appendix A3.6*) must be prepared annually and be made available for immediate submission to TDH upon request. The plan should list all active Attachments as of September 1st (beginning of the state fiscal year). If an Attachment will not generate PI, simply state "None" in the Total column for that particular Attachment.

An addendum to the PI Allocation Plan must be prepared when there is a significant change (more than 10%) in TDH funding or in the total funding from other sources. The addendum should contain all computations necessary to fully explain the modifications of the PI Allocation Plan. The revised allocation plan should be implemented as of the effective date of the change.

Disposition Requirements

The contractor's share of PI may be expended at the contractor's discretion. TDH's share must be expended for the purposes and subject to the terms and conditions of the specific contract Attachment under which the PI was earned. The Terms and Conditions of Payment Article of the contract General Provisions requires that TDH's share of PI, along with any rebates, refunds, contract settlements, audit recoveries and interest earned, be disbursed before requesting cash payments including advances from TDH.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Program income cannot be transferred from one Attachment to another (i.e., used to fund services provided under another contract Attachment), nor can it be carried forward to the succeeding Attachment in the subsequent contract term. Program income not expended during the term of the contract Attachment must be refunded to TDH.

The contractor will use one of the following methods for applying (expending) PI:

Additive Method - Under this method, PI is added to the funds already committed to the project by both TDH and the contractor. It will be used as earned to further the objectives of the Attachment under which it was generated.

Deductive Method - Under this method, PI is deducted from the total allowable costs to determine the net allowable costs.

Reporting

TDH's share of program income must be reported as a deduction from gross expenses on the monthly reimbursement request submitted to TDH. It is to be reported on a quarterly basis on the Financial Status Report (FSR) Form 269a. (See *Appendix A1.2* for instructions on completing the FSR.) It is also to be reported on a monthly basis on Form B13X by contractors with a Title X Attachment.

The amount of PI reported as TDH's share on the final FSR will be based on actual funding as reported on the final FSR. Any adjustments related to PI should be made on the final reimbursement request. Adjustments that result in an over payment must be immediately refunded to TDH.

Monitoring

Contractors should ensure the accuracy of reports submitted on a monthly basis. (As noted above, significant changes in funding will require a revised PI Allocation Plan.) TDH will monitor the information reported on the FSR for compliance with the PI Allocation Plan. Amounts reported on the FSR as "Total Charges," "Non-TDH Funding," "Program Income Collected" (TDH's share of PI), and "Total Reimbursements Requested" (TDH's share of funding) should all be consistent with data contained in the PI Allocation Plan. Reported amounts on the final FSR will be the basis for determining TDH's share of Program Income.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

(Refer also to *Section 9.1, Frequently Asked Questions, Program Income.*)

2.8 PROCUREMENT POLICIES AND PRACTICES

All contractors are required to establish written procurement procedures. These procedures should address, at a minimum:

- A review of proposed procurement activities to avoid purchase of unnecessary or duplicate items
- A comparison of lease versus purchase alternatives, and any other appropriate analysis to determine the most economical and practical procurement method
- Solicitations for goods and services

Solicitations should:

- Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. Such a description shall not, in competitive procurement, contain features that unduly restrict competition
- Avoid detailed specifications, if possible
- Identify all requirements that the bidders must fulfill and all other factors to be used in evaluating bids or proposals
- Describe technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards
- Describe the specific features of brand names or equal descriptions which bidders are required to meet when such items are included in the solicitation
- Provide for the acceptance of practicable and economically feasible products and services
- Encourage practicable and economically feasible products and services that conserve natural resources, protect the environment and are energy-efficient.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

For additional guidelines see UGMS, the "Common Rule," Section 36. _

2.9 INSURANCE COVERAGE

Insurance shall include, but not necessarily be limited to, the following coverage:

- Property insurance covering losses due to fire, theft and accident
- Liability insurance on the contractor's property and vehicles
- Workers compensation insurance for the contractor's employees
- Bonding for each employee who has direct access to or is responsible for the administration, direct care, management, or supervision of funds paid through a TDH contract. The contractor shall ensure that such employees are bonded through a licensed insurance company or otherwise covered for possible losses due to the unauthorized use or the lack of care and oversight of such funds. The required minimum coverage is an amount equal to the total funding for all attachments up to \$100,000.00 per act or acts. (See the General Provisions for additional information.)
- The contractor shall provide for the replacement or repair of damaged, lost, or stolen capital expenditure items that have been purchased with federal or state funds. All lost or stolen property should be reported to the proper police authorities and a copy of the police report should be retained by the contractor. The contractor must also report such incidents, in writing, to TDH as soon as practicable.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Section 3.0

REIMBURSEMENT PROCEDURES

3.1 ADVANCE PAYMENTS

If the contract provisions allow for an advance payment, TDH contractors may request a one-time advance for each contract attachment. Federal and State regulations require that cash advances be limited to the minimum amount needed to meet grant recipients' immediate cash requirements. The determination to issue an advance, the amount of the advance and the repayment schedule is at the discretion of TDH. The advance payment shall not exceed an amount equal to the total of the attachment divided by the number of months covered by the attachment multiplied by two (2).

Advance payments shall be requested on a State of Texas Purchase Voucher (TDH Form B-13). (See Appendix A2.1 a example of a completed Form B-13)

Documents Required to Support a Request for Advance Payment

The following documents should be submitted with each request for advance payment:

- Completed State of Texas Purchase Voucher, Form B-13, which reflects the amount of the advance requested
- A detailed written narrative specifying the amount and the circumstances that necessitate an advance
- A detail of what the funds will expended on

GMD will evaluate the information submitted by the contractor and will determine the amount of the advance to be issued. The request for an advance will be processed after the contract attachment is fully executed.

Repayment of Advances

Contractors may repay all or part of advance funds at any time during the period prior to the last three months of the attachment term. If the entire advance has not been repaid prior to the last three months of the attachment term, one-third of the remaining advance must be deducted from each of the last three month's vouchers. Repayments must be

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

reflected as a separate line item on each voucher. (See Appendix A2.1 for the proper format.) If the entire advance is not repaid prior to the last three months and the vouchers for the last three months do not reflect a reduction to repay the advance, GMD will automatically reduce each voucher by one-third of the remaining balance of the advance.

3.2 REIMBURSEMENT REQUESTS

Claims for reimbursement of actual costs incurred by a TDH contractor as a result of providing the services defined by the attachment's scope of work must be submitted on a State of Texas Purchase Voucher (TDH Form B-13). Vouchers should be submitted monthly within 30 days following the end of the month covered by the bill. Each voucher must reflect the **complete TDH document number and purchase order number** in the "Description of Goods or Services" (Section 20) section of the voucher. **Vouchers that do not reflect this information may be returned to the contractor.**

TDH may, without waiving its rights to impose other sanctions, temporarily or permanently withhold payments from a contractor for the following programmatic and financial noncompliance items:

- Failure to submit required financial reports
- Failure to respond to financial compliance monitoring reports
- Failure to submit required independent audit reports
- Failure to meet program requirements as specified in an attachment's Scope of Work
- Failure to provide pertinent records and documents for the purpose of examination relating to an audit of contract Attachment(s)
- Inadequate or inappropriate resolution of program or financial monitoring findings
- Other items of noncompliance

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Monthly reimbursement requests should be mailed to the following address:

Grants Management Division
Texas Department of Health
1100 West 49th Street
Austin, Texas 78756-3199

Attention: Payments Section

Note: See Appendix A-10 and A-11 for special instructions for requesting reimbursement on matching contract attachments.

3.3 LATE REIMBURSEMENT REQUESTS

A voucher for costs incurred during the term of the attachment but not reflected on the regular monthly reimbursement vouchers may be submitted as a final close-out voucher. A final close-out voucher must be submitted not later than ninety (90) days following the end of the contract term and must be submitted with the Final FSR Form 269a. Claims received more than 90 days after the end of the applicable attachment term will be denied.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Section 4.0

FINANCIAL REPORTING REQUIREMENTS

4.1 QUARTERLY FINANCIAL STATUS REPORT FORM 269A (FSR)

Note: See Appendix A-10 and A-11 for special instructions for reporting expenses and In- Kind contributions on matching contract attachments.

The quarterly Financial Status Report Form 269a (commonly referred to as an "FSR" or "269a") is the primary means for contractors to report the allowable costs incurred in the performance of obligations under a contract attachment. The completed form reflects the following elements: (a) the approved categorical budget for the attachment, (b) the allowable expenses incurred during the current quarter by budget category, e.g., Personnel, Fringe Benefits, etc., (c) the cumulative expenses for the attachment, (d) the unexpended budget by category, and (e) TDH's share of program income (PI).

The following guidelines apply to the FSR:

- Only allowable costs incurred in the performance of the scope of work as defined in the attachment are to be reported on an FSR. Allowable costs are defined in: this document, Uniform Grants Management Standards, the applicable OMB Circular (A-21, A-87, or A-122), and the contract general provisions and attachment terms.
- The costs reflected on the 269a must be equal to the costs recorded in the contractor's general ledger accounts that are applicable to the attachment.
- The total of the reimbursement vouchers submitted to TDH under the attachment cannot exceed the costs reflected on the 269a.
- The 269a must be signed by an authorized, fiscally responsible employee of the contractor who is thereby attesting to the validity and accuracy of the information contained on the 269a.

The due dates for the FSR's are stated in the contract general provisions "Reports" article. The attachments special provisions may stipulate specific due dates. These reports are required regardless of whether or not expenses have been incurred. Failure to submit timely reports may

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

delay issuance of reimbursement warrants. (See Appendix A1 for instructions and sample forms.)

4.2 FINAL FINANCIAL STATUS REPORTS

The due date for the Final Financial Status Report is stated in the contract general provisions "Reports" article. A State of Texas Purchase Voucher may be submitted if all allowable costs have not been recovered. In submitting the final FSR, the contractor should compare the total cumulative costs reported on the final FSR and reimbursements received. A refund will be required if the cumulative costs incurred (as reflected on the final FSR) are less than reimbursements received. A refund check for the amount of the overcharge should be submitted with the final report. The final FSR must be submitted regardless of whether or not expenses have been incurred. Failure to submit timely reports may result in the imposition of sanctions.

4.3 PROGRAM INCOME REPORTING

Quarterly Form 269a

Indicate TDH's proportionate share of program income (PI) (as determined by the contractor's PI Allocation Plan) expended in Section 11, line k, columns (iii) and (iv).

Annual Form 270 (if applicable)

Indicate TDH's proportionate share of PI expended for the year on line 11b (this amount should correspond to last (4th) quarter, or final, Form 269a, section 11, column C, line k). Also, indicate a summary of PI activity at the bottom of Form 270.

(See Section 2.7 for additional information concerning program income.)

4.4 SPECIAL REPORTING REQUIREMENTS FOR TITLE X

All costs included as total project costs must be allowable under UGMS and the appropriate federal cost principles.

Quarterly and annual/final financial reports may be prepared on either a "cash" or "accrual" basis, depending upon the contractor's established

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

accounting system and the basis utilized in development of the project budget. Reporting under an "accrual" basis will necessitate submission of revised annual/final financial reports to reflect adjustments to program income earned due to uncollectible accounts.

"In-kind" contributions included in total project costs must be included in the non-federal share of projects. Since "in-kind" contributions do not represent a cost to the contractor, the federal share cannot include a portion of such costs.

Monthly

Form B13X must be submitted monthly with each reimbursement voucher.

Quarterly

Financial Status Report, Form 269a, must be submitted by the 30th of the month following the end of the quarter. When reporting project costs by category on the Form 269a, do not alter or add budget category designations.

Annual/Final

Annual/Final Form 269a and Form 270 must be submitted within 90 days following the end of the contract term. Expenditures on the annual/final reports may not include unliquidated obligations.

Amended Final

An amended Form 269a and Form B13X must be submitted whenever an overcharge to Title X is discovered regardless of the lapse of time since the due date of annual/final reports. A refund check for the amount of the overcharge should be submitted with the revised Form B13X.

An amended final Form 269a and Form B13X must be submitted whenever it is determined that income reported on an "accrual" basis is uncollectible.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Section 5.0 MODIFYING THE TERMS OF A CONTRACT ATTACHMENT

After a contract attachment has been fully executed, any changes to the terms, conditions, and categorical budget must be approved in writing. This can only be done by a properly executed written amendment in accordance with TDH policy. UGMS requires prior written approval from TDH for post-award changes. Verbal communications with TDH staff do not constitute prior approval. Failure to obtain prior written approval may result in the disallowance of incurred costs.

All requests for contract changes which are initiated by the contractor must be submitted in writing to the appropriate TDH program office. The request should include written narrative justification for the proposed revision and (if applicable) a completed TDH Contract Budget Revision Form GC-9a. The narrative statement should specify the reason that the change is being requested. (Note: If funds for equipment are being adjusted, an equipment list must be attached.) Approved changes will be documented by either a formal contract amendment or a letter of notification. If a request is not approved, TDH will notify the contractor in writing.

The items listed below, as well as any others specified in the applicable cost principles, or financial administration requirements, and any other items which may be specified in a particular contract attachment, require prior written approval from TDH.

5.1 Contract Amendments

Changes which require formal contract amendments include:

- Any change in funding amount or extension of the period of availability of funds
- Any revision to the scope or objectives of the contract attachment (regardless of any associated budget revision requiring prior approval)

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

5.2 Written Approval

Changes which require prior formal written approval include:

- Additional equipment purchases of \$1,000.00 or greater and specific exception items of \$500.00 or greater (see Section 2.6 for additional information)
- Cumulative transfers among direct cost categories which exceed, or are expected to exceed, ten percent (10%) of the current total approved budget
- Changes in key personnel where specified in the contract attachment
- Subcontracts which exceed \$25,000 or 25% of the attachment amount, whichever is greater (see the subcontracting article in the General Provisions of your contract for additional information concerning subcontracting)

As previously stated, in addition to the items listed above, other prior approval items may be required by the terms of the contract, specific program legislation, or other regulations.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Section 6.0

PROPERTY MANAGEMENT PROCEDURES

UGMS requires contractors to maintain an inventory of equipment purchased with contract funds. Equipment is defined by TDH as non-expendable personal property with a unit cost of more than \$1,000.00 and a useful life of more than one year, with the following exceptions: fax machines, cameras, video recorders/players, microcomputers, printers, software and medical and laboratory equipment. Medical and laboratory equipment in this category is defined as microscopes, oscilloscopes, centrifuges, balances and incubators. Medical and laboratory equipment not included in these five categories is not considered a capital asset unless the unit value is over \$1,000.00. The exception items listed must be inventoried if their unit cost, plus any items used with or attached to the unit, is \$500.00 or greater. For items with component parts (e.g., computers), the aggregate cost must be considered when applying the \$500/\$1000 threshold. Written prior approval is also required for disposition of non-expendable personal property.

6.1 Equipment Management

Procedures for managing equipment, whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- Property records must be maintained that include a description of the property; a serial number or other identification number; the source of (program) funding for the property; the acquisition date; the acquisition costs; the percentage of TDH's participation in the cost of the property; the location, use and condition of the property; and any ultimate disposition data including the date of disposal and the sale price.
- A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- An annual cumulative property inventory report (TDH Form GC-11) must be submitted to TDH Grants Management Division no later than October 15th of each year. If the contractor has purchased equipment in prior years but none was purchased in the current year, the report must be submitted reflecting prior years' purchases.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

- A control system must be developed to ensure adequate safeguards against loss, damage or theft of the property. The contractor is responsible for any loss and should ensure that proper insurance coverage is obtained - either by a commercial insurance policy or an acceptable self-insurance plan.
- Ensuring that equipment is kept in good working condition through repair and maintenance is the responsibility of the contractor.
- Title for the property rests with the contractor; however, TDH retains the right of disposition of such property.

6.2 Disposition of Property

When original or replacement equipment is no longer needed, has become obsolete, or is inoperable and impractical to repair, the contractor will request disposition instructions from GMD. This request should include a description of the equipment, the TDH Program and Attachment number that it was purchased under, its current condition, estimated costs to repair (if required), estimated value and suggested disposition. TDH will provide written disposal instructions. Property disposition requests and the annual Form GC-11 should be sent to:

Grants Management Division
Texas Department of Health
1100 West 49th Street
Austin, TX 78756-3199

At the time of contract termination, TDH reserves the right of disposition in accordance with the provisions of UGMS. Solely at its discretion, TDH may direct the transfer of title to TDH or to a third party.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Section 7.0

TECHNICAL ASSISTANCE

Technical assistance reviews (TA's) are conducted by GMD financial compliance monitors at the contractor's site. The monitor will conduct an entrance conference with the appropriate contractor staff and review the agency's internal control procedures. This will provide the monitor with information from which a recommendation may be made as to the adequacy of the contractor's accounting system. The responses provided by the contractor may be verified by examining expenditures and source documents. The examination may include a test for allowability in accordance with appropriate federal/state regulations and TDH policies and procedures.

The monitor will provide the contractor with explanations of requirements for each approved budget category; provide instructions for the preparation of the required expenditure reports and purchase vouchers used to request funds; and generally summarize financial administration requirements of TDH. An exit conference will be conducted to conclude these discussions with interested staff of the contractor. The monitoring staff will also provide technical assistance by telephone. The numbers to call for this assistance are (512) 458-2591 or 458-7520.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Section 8.0

FINANCIAL COMPLIANCE REVIEWS

The GMD monitors contracting entities to ensure that:

- Contractors follow applicable federal/state regulations as detailed in the UGMS; comply with TDH policies and contract terms, including the General Provisions
- The contractor's financial management system, i.e., accounting records, accounting and management policy and procedures, personnel policies and procedures, etc., meet or exceed the minimum acceptable standards for TDH contractors
- The costs being charged to a TDH contract are allowable

There are three types of financial compliance monitoring: routine financial report monitoring; desk financial compliance reviews; and on-site financial compliance reviews.

8.1 Routine Financial Report Monitoring

Monthly reimbursement requests, Financial Status Report (FSR's) Forms 269a and 270, Form B13X (Title X Attachments) and Form B13a (Attachments with match requirements) are monitored by GMD to ensure that reimbursement requests reconcile to costs reported on the appropriate form. In addition, the FSR's are reviewed for any problems such as a ten-percent-rule violation, equipment purchase without prior approval, indirect charges in excess of the budgeted amount or other discrepancies.

8.2 Desk Financial Compliance Reviews

A contractor chosen for a desk review will be provided with an explanation of the desk review process and a written list of documents needed to complete the review. After the review, the contractor will receive a formal report which lists the findings of the review and recommended steps to correct the findings. The contractor will respond and provide documentation of the corrective actions taken as a result of the findings. The desk financial compliance review is closed when all findings have been satisfactorily addressed.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

8.3 On-site Financial Compliance Reviews

The third type of review is the on-site financial compliance review. Contractors selected for this type of review are contacted by a GMD financial compliance monitor to arrange an on-site visit. The normal steps involved in an on-site financial review are:

1. GMD's financial compliance monitor contacts the contractor to set the review date(s).
2. A confirmation letter is sent to the contractor.
3. A list of the contractor's documents required for the review is faxed to contractor (See Appendix A6 for example). Some documents will need to be submitted to TDH prior to the on-site review. These documents will be specifically identified in the fax. All listed documents to be reviewed on-site should be assembled and made available to the monitor upon arrival at the contractor's offices. Failure to provide the requested documentation on time may result in the withholding of funds.
4. The monitor conducts an entrance conference upon arrival at the contractor's offices. This conference should be attended by the contractor's executive director, chief financial officer, and any other contractor staff member who will be involved in the review.
5. The monitor conducts the review. A knowledgeable member of the contractor's staff should be available throughout the review to answer questions and to provide additional documentation if requested. The monitor has the option to broaden the scope of the review and may request additional documentation as necessary.
6. When the monitor completes the review, an exit conference is conducted, typically with the same people who attended the entrance conference. The monitor will present the preliminary findings which resulted from the review and recommend corrective action.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

7. GMD issues a formal written report which reflects the findings of the review and the recommended corrective action necessary to eliminate the deficiencies. The contractor must submit a written response to the report findings no later than 30 days from the date of the report. The contractor's response must:
 - Address **all aspects of all findings**
 - Reflect (1) the finding number; (2) the contractor's response; and (3) copies of documents necessary to support the response. The response should reference each supporting document by a unique document number, and each supporting document should clearly reflect the finding number and the document number
 - Be clear, concise, complete and well-organized in the manner detailed above, as it may be evaluated by a TDH staff member other than the monitor who conducted the review.
8. GMD evaluates the response to each finding and either accepts or rebuts by requesting further action or clarification in writing. If a response is rebutted, the contractor must respond to the rebuttal in writing. The response and rebuttal process will continue until the responses to all findings are accepted and the review is closed.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Section 9.0

FREQUENTLY ASKED QUESTIONS

9.1 PROGRAM INCOME

What is Program Income?

Program income (PI) is the gross income directly generated by a grant supported activity or earned as a result of the grant agreement during the Attachment term. The grant activity may be funded by TDH, the contractor or other funding sources. (See *Section 2.7, Program Income, Definition and Purpose.*)

What is a Program Income (PI) Allocation Plan?

PI earned as the result of an activity jointly funded by TDH and the contractor (or other funding sources) is to be shared by TDH and the other funding sources. A Program Income Allocation Plan is the means by which TDH's share (and other funding sources' share) is determined. (See *Section 2.7, Program Income, Allocation*, for more details.)

When should an addendum to the PI Allocation Plan be prepared?

An addendum to the PI Allocation Plan must be completed (and retained in the contractor's files) whenever there is a significant change (more than 10%) in TDH funding or in the total funding from other sources. The revised PI Allocation Plan should be implemented immediately for purposes of reimbursement requests. (NOTE: Although minor funding changes (<10%) do not require a formal addendum change to the PI Allocation Plan, final PI reporting amount will be based on actual funding as reported on the final FSR. (Refer to *Section 2.7 Program Income, Reporting.*)

How and when may Program Income be spent?

The contractor's share of PI may be spent at the contractor's discretion. TDH's share must be expended for allowable costs incurred to carry out the scope of work of the specific contract Attachment under which the PI was earned. The same laws, regulations, contract provisions, and TDH rules and procedures that apply to the expenditure of funds received under the contract Attachment apply as well to the expenditure of TDH's share of PI generated under the Attachment. This includes obtaining

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Institutional Prior Approval (IPA) for equipment purchases (or any other changes subject to IPA requirements).

PI cannot be transferred from one contract Attachment to another, nor can it be carried forward to the succeeding Attachment in the subsequent contract year. Program income not expended during the term of the contract Attachment under which it was earned must be refunded to TDH.

What are the options for the use of TDH's share of Program Income?

In accordance with the Program Income Article of the contract General Provisions, contractors are allowed to utilize TDH's share of PI in the following ways:

Additive Method - Add the program income to the funds already committed to the project by both parties. Program income will be used by the PERFORMING AGENCY to further the program objectives of the state/federal statute under which the Attachment was made, and it shall be spent on the same project in which it was generated.

Deductive Method - Deduct the program income from the total allowable costs to determine the net allowable costs on which the TDH share of funding will be based.

How is Program Income disbursed?

The Terms and Conditions of Payment Article of the contract General Provisions states, in part, that the "PERFORMING AGENCY shall disburse program income, rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting cash payments including advance payments from RECEIVING AGENCY." Thus, TDH's share of PI collected in any given month must be applied (added or deducted) to allowable costs prior to requesting reimbursement. The reimbursement voucher should reflect the application of PI reducing the total allowable cost by the amount of PI collected. For example:

Gross Allowable Expenses incurred this month	\$xxxxxxx
Less: Application of PI collected this month	(xxxxx)
Net Reimbursable Expense	\$xxxxxxx

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

9.2 TRAVEL ADVANCES

What is the proper accounting procedure for travel advances?

Travel advances should not be charged to a TDH contract attachment. An advance is not an expense, but rather constitutes a loan to an employee. Only the actual travel expense incurred may be charged to a contract attachment.

Travel advances should be recorded in the general ledger as an account receivable for the individual employee receiving the advance. When the employee has completed the trip and submitted a travel voucher for the expenses incurred, the total costs of the trip should be credited to the advance account and the total expenses charged to the appropriate expense account. If the employee incurred allowable expenses in excess of the advance, a check for the difference should be issued to the employee and debited to the travel advance account. If the employee incurred allowable expenses that were less than the amount of the advance, the employee should repay the difference and the receipt recorded as a credit to the advance account.

9.3 COSTS AND COST ALLOCATION PLANS

What is the difference between “Direct Costs” and “Indirect Costs” ?

Direct costs are those that can be identified with a specific contract attachment other a specific cost objective. Direct costs may also include costs benefiting both a specific contract attachment and other cost objectives that can be distributed in reasonable proportion to the benefits received by each cost objective. This class of direct costs is referred to as allocated direct costs.

Indirect costs are those necessary to the overall operation of an organization where a direct relationship to a specific cost objective cannot be readily identified. To facilitate equitable distribution of indirect expenses, it may be necessary to establish a number of pools of indirect costs. Indirect cost pools should be allocated to benefited cost objectives on a basis that will produce an equitable distribution of expenses relative to the benefits derived by each cost objective.

GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE PROCEDURES MANUAL for TDH CONTRACTORS

Examples:

Direct Costs: (Costs identified with a specific activity/cost objective) Salary/wages; travel expenses; vehicle mileage; specific medical supplies or prescription drugs; consultant fees; equipment; rent, utilities and maintenance related to office space used only by employees working on one contract attachment/cost objective; long distance telephone charges.

Allocated Direct Costs: Rent, utilities, repairs and maintenance related to office space shared by employees performing tasks under more than one contract attachment/cost objective; copy machine rental; office supplies; telephone system costs (other than long distance charges).

Indirect Costs: General office supplies; executive director's salaries and other related expenses, receptionist's salary and fringe benefits; accounting functions.

What is a cost allocation plan?

A cost allocation plan is a formal written plan that defines the method or methods to be used by a contractor to allocate costs which benefit more than one cost objective. The plan should identify those types or classes of costs which will be allocated and include the formula (basis) to be used in allocating the costs as well as a narrative describing the rationale and development of the formula. Supporting documentation for the development of the formula must be maintained. The plan must be logical and systematic and must be revised when circumstances relating to the plan change significantly. **Budgets or revenue may not be used as a basis for allocating costs to a TDH contract attachment.**

The written plan, supporting documents, and documentation and rationale for any revisions must be maintained by the contractor and made available to TDH financial compliance monitors upon request. (See *Appendix A4* for suggested allocation bases for specific costs and examples.)

**GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE
PROCEDURES MANUAL for TDH CONTRACTORS**

APPENDICES

SECTION	DESCRIPTION	PAGE
A1	FINANCIAL STATUS REPORT (FSR) FORMS & INSTRUCTIONS	
	This section includes blank copies of FSR Forms 269A, Form 270, Form B13X and instructions for completing the forms. If you have questions concerning these forms, you may call the Payments & Compliance Section of GMD at (512) 458-7520.	
	Example of a completed Form 269A	A1.1
	Blank copy of a 269A and instructions	A1.2
	Example of a completed Form 270 - Title V Fee-for-Service Attachment and instructions	A1.3
	Blank Form B13X and instructions - Title X Attachment	A1.4
	Example of a completed Form 270 - EMS Attachment and instructions	A1.5
	Blank Form 270	A1.6
A2	REIMBURSEMENT REQUESTS	
	This section includes examples for TDH Form B-13 (State of Texas Purchase Voucher which is used as a request for reimbursement for expenses incurred under cost-reimbursable attachments and Form 270 which is used as a reimbursement request for special attachments.	
	Example of a completed TDH Form B-13 and instructions	A2.1
A3	SAMPLE FORMS	
	This section includes various sample forms (employee time sheets, travel vouchers, etc.) which a contractor may copy or use as a model for designing custom forms.	
	- Time Sheet	A3.1
	- Travel Voucher	A3.2
	- Personal vehicle mileage	A3.3
	- Request for expenditure authorization	A3.4
	- Check Requests	A3.5
	- PI Allocation Worksheet	A3.6

**GRANTS MANAGEMENT DIVISION'S FINANCIAL ADMINISTRATIVE
PROCEDURES MANUAL for TDH CONTRACTORS**

SECTION	DESCRIPTION	PAGE
A4	COST ALLOCATION PLANS A cost which benefits both a TDH attachment and other cost objective or two or more TDH attachments, etc., may be allocated to the cost objectives (including TDH attachment(s)) which derive(s) benefits from the expenditure, provided the allocation is based upon a written cost allocation plan. An allocation plan consists of two parts: (1) a narrative explanation of the rationale for the method used in the plan and (2) the supporting documentation and calculations used to develop the basis for the plan.	
	Suggested Cost Allocation Methods	A4.1
	Examples - Cost Allocation Plan for Occupancy and copying expenses	A4.2
A5	NON-EXPENDABLE PERSONAL PROPERTY REPORT (GC-11) This is an annual report which contains a <u>cumulative</u> listing of all equipment, which meets the criteria for the budget category of "Equipment" purchased by a contractor with funds provided by a TDH contract attachment and/or from Program income (PI) earned under a TDH attachment (see the General Provisions of the TDH contract for the definition of "Equipment"). The report is to be submitted annually to GMD no later than October 15th. It should reflect equipment purchased through August 31 of the current year.	
	Example - GC-11	A5.1
	Blank GC-11	A5.2
A6	LIST OF ITEMS REQUIRED FOR FINANCIAL COMPLIANCE REVIEW	A6
A7	EXAMPLE OF LABOR (SALARY) DISTRIBUTION METHOD BASED ON TIME SHEETS	A7
A8	RESERVED FOR FUTURE USE	
A9	RESERVED FOR FUTURE USE	
A10	MATCHING CONTRACT ATTACHMENTS - SPECIAL REQUIREMENTS	A10
A11	MATCHING CONTRACTS - FORM B 13X AND INSTRUCTIONS - SUPPORTING SCHEDULE FOR REIMBURSEMENT	A11